MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Economic Advisory Council November 2021 Meeting Minutes

November 5, 2021
10:00 am – 12:00 pm
Virtual Meeting

Agenda

Time	Activity / Topic
9:45 am	**Webex Conference Line Opens**
10 am – 10:05 am	**Introduction and Welcoming Remarks** Alicia Phillips Mandaville, Vice President Department of Policy and Evaluation
10:05 am – 10:10 am	**Overview of Meeting** **MCC response to EAC recommendations from previous EAC meetings** Mark Sundberg, Chief Economist, Economic Analysis
10:10 am – 11:00 am	**Accounting for Shocks and Resilience in MCC's Growth Analytics and Investments** Sandra Ospina, Senior Director, Economic Analysis
11:00 am – 11:50 am	**Expanding the Digital Economy to Promote Growth and Reduce Poverty** Arif Mamun, Managing Director, Economic Analysis
11:50 am -11:55 am	**Administrative Next Steps** Chair
11:55 am – 12:00 pm	**Opportunity for Public Comment**
12:00 pm	**Meeting Adjourns**

Call to Order, Introduction and Welcoming Remarks, and MCC Response to EAC Recommendations

Following the call to order, Alicia Phillips Mandaville, MCC Vice President for Department of Policy and Evaluation, delivered and Introduction and Welcoming Remarks. MCC Chief Economist Mark Sundberg provided an overview of the meeting and described MCC's response to EAC recommendations from the previous March 2021 meeting.

- MCC has embarked on identifying new priorities ('MCC at 20') and is refining its approach to capturing externalities and cross-border challenges. Part of this entails MCC's preparation of new draft guidance on accounting for externalities in cost-benefit analysis.
- MCC is revisiting the economic rate of return's "hurdle rate" for assessing projects in compacts and, relatedly, preparing guidance on the choice of discount rates used in cost-benefit analysis to better reflect the longer time horizons of certain benefit streams (e.g., resilience to climate change or reducing intergenerational poverty transmission).
- EAC recommendations to rigorously analyze national versus subnational development support and improve coordination of fiscal assignments has informed ongoing early development of the Mozambique compact.

Session 1: Accounting for Shocks and Resilience in MCC's Growth Analytics and Investments

Systemic shocks to economies can slow and even reverse gains in poverty reduction and economic growth. Systemic shocks such as financial crises, natural disasters, epidemics, and violent conflicts/wars result in sharp increases in poverty in the short-run and affect the human capital (education, health, nutrition) of especially poor children. The latter can yield lower overall growth rates and sometimes irreversible impacts on chronic poverty, making shocks a key variable in both our understanding of long-run growth and of resilience-building investments. Understanding and incorporating the impact of system shocks in MCC's analytics tool kit could strengthen the quality and relevance of MCC's future country support.

The nature, frequency, incidence, and intensity of potential shocks are fundamental to constructing an analytical framework for understanding their impacts, both on a partner country's overall economy and individual MCC investments. Data on these characteristics of shocks are available from past history, but forecasting future distribution and intensity is challenging, e.g., modeling climate change. Nonetheless, MCC may consider applying stress tests to capture fragility in specific sectors and/or population segments, and careful sensitivity analyses that simulate the impact of shocks to parameters on the costs and benefits of proposed projects.

Macro and fiscal policies, infrastructural and public education and health investments, as well as stabilization and other social safety net funds offer potentially useful entry points to better manage

economies in the face of shocks. Most macro and fiscal policies and infrastructure and health investments provide ex ante support, i.e., resilience before a shock occurs. In addition, support for natural disaster or economic dislocation insurance instruments, whether in support of a particular MCC investment, or as a standalone resilience program, can provide important support as an economic and social safety net and to notably to preserve employment in the aftermath of shocks.

MCC should explore the possibility of supporting insurance instruments under current agency authorization. This entails taking stock of the political appetite for additional insurance which may be limited in developing countries as the estimated opportunity costs of unspent funds reserved for insurance against catastrophic events may be too high. Furthermore, investments in elements of hard and soft infrastructure (e.g., information technology, transportation, pharmaceuticals, food and medicine stockpiles, and even universal basic income programs) can potentially achieve greater resilience to shocks.

Support for "resilience to shocks" may ultimately not fall within MCC's comparative advantage. Given the work of other agencies and MCC's traditional focus on inclusive private sector-led growth, efforts to explore this scope for support should be undertaken cautiously. The EAC voiced a variety of views on this, but nonetheless stressed the importance of dedicating more attention to partner country's systemic risk assessments.

Accompanying presentations by EAC members Nora Lustig and Ravi Kanbur.

Session 2: Expanding the Digital Economy to Promote Growth and Reduce Poverty

Strong digital infrastructure and related capabilities are a force for innovation and economic transformation. Yet, digital services are poorly developed in many lower income countries, and a substantial digital divides and imbalances exist across and within countries. Understanding the opportunities and challenges in the digital economy could enable MCC to more proactively work with partner countries to expand support for digital infrastructure and create an enabling environment for skills development.

Information and communication technology (ICT) can affect the entire economy through digitalization, including public services. Digital technology could raise productivity and accelerate economic growth, but reliable, high quality, affordable digital connectivity is a key input. Low access to digital technology denies citizens services and economic opportunities, accentuates inequality along existing fault-lines (e.g., lower vs. higher income, rural vs. urban, digitally literate vs. non-literate populations). Creating favorable policy environments and using blended finance mechanisms (such as public-private partnerships, minimum subsidy auctions) can attract private investment flows to expand the digital infrastructure and ultimately broaden access to digital services. At the same time, the promotion of open-source technologies can lower the cost of technology adoption.

Exploiting ICT requires complementary investments in human capital, training, and building a skilled

workforce. Sub-Saharan Africa has already experienced considerable success in building ICT capacity, but its large youth population remains skill-hungry. But training alone will not generate jobs. Connecting private sector and employers more directly, through apprenticing and other workplace innovations, can better match labor market demands.

ICT offers huge potential, but leapfrogging manufacturing to high value-added services is not a likely development option. Manufacturing remains an important element of growth and structural transformation. ICT impacts on manufacturing, particularly through supply chain management, can be highly impactful. Yet, the employment effects of expanding the digital economy may be more limited, particularly for lower-skilled workers, and should not be overstated.

Digital technology's impacts on agricultural productivity and resilience are potentially high and could help accelerate structural change and cross-sector growth. In sub-Saharan Africa in particular, ICT can introduce efficiencies throughout the food and agriculture sectors and help drive economic transformation and reduce inequality. ICT can also facilitate more efficient rural-urban and seasonal migration, which would contribute to structural change.

ICT infrastructure could undergird digital payment systems with a focus on financial inclusion. Key questions to consider include whether to combine payment systems with expansion of digital infrastructure, what type of payment systems to support, and how to engage the private sector.

Enhancing ICT capacity can play a key role in fostering resilience to shocks. ICT can mitigate the impact of large shocks (e.g., the coronavirus pandemic) that interrupt labor force mobility and commerce, permitting virtual mobility, and learning.

ICT investments may raise a few challenges for MCC's analytic work and agency priorities. Its broad cross-cutting impacts notwithstanding, ICT may not emerge as an easily identifiable binding constraint to economic growth. Yet, when faced with a large shock, such as a global pandemic, it suddenly can become binding and prove critical to an economy's resilience. ICT's diffuse impact on the economy also raises challenges for assessing potential returns to investment in a cost-benefit analysis. Meanwhile, ICT investments in the manufacturing and industrial sectors may also lead to some labor redundancies through automation, raising questions about efficiency versus employment and equity. However, investments in digitalization of SMEs and in service sectors, such as e-commerce and mobile banking can create new jobs and also lead to higher productivity growth in those sectors.

Accompanying presentations by EAC member Shahrokh Fardoust.

Opportunity for Public Comment and Adjournment

A member of the public commented that, while the issue of resilience to shocks is important, it is not clear MCC is well-suited to this area of intervention. Separately, MCC should study whether ICT is a worthwhile area of intervention even if it does not emerge as a binding constraint in a given setting.

Meeting adjourned at 12:00 pm.

MCC Economic Advisory Council Members Present

- Alan Gelb, Center for Global Development
- Nora Lustig, Tulane University
- Shantayanan Devarajan, Georgetown University
- Louise Fox, University of California-Berkeley
- Shahrokh Fardoust, College of William and Mary
- Christopher Blattman, University of Chicago
- Celestine Monga, Harvard University
- David Dollar, Brookings Institution
- Homi Kharas, Brookings Institution
- Jeff Vincent, Duke University
- Raquel Fernandez, New York University
- David Robalino, IZA
- Paul Smoke, New York University
- Ravi Kanbur, Cornell University
- Solomon Hsiang, University of California-Berkeley
- Will Masters, Tufts University
- Will Martin, International Food Policy Research Institute

MCC Economic Advisory Council Members Absent

- Emmanuelle Auriol, Toulouse School of Economics
- Vinod Thomas, National University of Singapore
- Martin Ravallion, Georgetown University
- Rema Hanna, Harvard University
- Stefan Dercon, University of Oxford
- Augusto de la Torre, Columbia University
- Allen Blackman, Inter-American Development Bank